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Editor

A concise easily digested periodic analysis based upon scientific research in real estate fundamentals and trends....Constantly measuring and reporting the basic economic factors responsible for changes in trends and values.....Current Studies.... Surveys....Forecasts

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REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

TOMORROW ALWAYS COMES

REGARDLESS of war crises, tomorrow always comes and with it come the everyday problems that must be solved as they arise. There may be logical explanations for certain failures in business efforts, but life accepts no excuses. No man ever succeeded in business or in life by having a valid excuse for his failure.

The entire field dealing with real property is operating today under strict Government controls because of the war. Certain phases of real estate operations have been so restricted that only by great diligence and intelligence can a successful business be continued. Rent control has affected all residential property and we think by fall it will probably be extended to commercial properties. Building has been severely restricted and will probably be restricted still further as the all-out effort is intensified this fall. Mortgage volume will shrink with the shrinkage in new building, and new financing will be made with more risk than it has been in the past five years. Property managers will spend the greater part of their time trying to get maintenance materials and the balance in trying to keep an organization together in the face of competition for men from the armed forces and the forces of war production.

The outlook for sales is still good and may brighten further as the year progresses. In spite of rent control, values will continue to creep upward, and the owner of well-selected real estate will find himself in better shape than the owner of many other types of investments.

The handling of the various problems entailed by real property is a continuing business - war or no war. The real estate operator (unless he is too highly specialized in a restricted field) has a better chance for survival than workers in many other civilian lines.

The brightest part of the present picture is the rapid rate at which our war production has been growing, with the implications that this rapid preparation will tend to shorten by many months the period of the war. Many persons who formerly believed that the war would last for an indefinite period now believe that victory is possible in 1943 or 1944.

However, at this time the bottleneck appears to be transportation instead of production, which may seriously retard the delivery of supplies to our far-flung over-seas forces. The enemy is still powerful, and it may be unwise to predict an early victory.

MORTGAGE INTEREST RATES DURING AND AFTER THE WAR

MORE questions have been asked us recently on the trends of mortgage interest rates than on any other subject. Banks, institutional lenders and savings and loan associations are all vitally interested in the question of how much the war will affect these levels. They are interested almost as much in the question of the reactions which might be experienced after the war is over.

Unfortunately these questions, like many others in economics, cannot be answered with forecasts giving exact rates or dates. The best that can be done is to analyze the various influencing factors as carefully as possible in an effort to determine the relative importance of these factors in affecting the rate. It must also, of course, be understood that we are living in a period of attempted Government control and that it would be to the disadvantage of the Federal treasury for interest rates to rise during the period of the war.

Adam Smith wrote, "No law can reduce the common rate of interest below the lowest ordinary market rate at the time when that law is made."* We are not at all certain that Smith was right as we can conceive of many ways in which gross interest rates have been and may be lowered by Government action.

Probably the best illustration is the effect the FHA has had in reducing the mortgage interest rate, not by violating any economic principle of supply and demand, but by reducing the amount of the "loading" which every interest rate must contain. Since this "loading" has always been a very sizable element in all mortgage interest rates, it is probably wise to consider it in detail before we discuss the probable effects of the war on the gross rate.

1. The largest "loading" from the quantitative standpoint in any mortgage interest rate is the charge made for the risk assumed. Theoretically, this loading should be sufficient to accumulate a reserve to take care of defaults. In other words, the mortgage interest rate should be high enough to return not only the pure interest but also the proper percentage to take care of losses.

There can be no question but that the risk element in mortgage lending has been very greatly reduced from the standpoint of the mortgage lender by the FHA. This has been accomplished in three ways: a. By standardizing appraisal technique; b. By inspections during construction; c. By guaranteeing the mortgage for a separate fee paid by the borrower. This last provision, in view of the ability of the FHA through its debentures (guaranteed by the Government both as to interest and principal) to socialize any loss in excess of the insurance reserve, reduces the risk to a risk of having the interest rate reduced in case of foreclosures from 4½% to 2 3/4% and the probability that the market value of the debentures may drop materially. For large institutions that can carry these debentures through to maturity, this question of market price is not of as great importance.

There are several other minor risks still involved in FHA financing, including the uncertainty regarding "waste."

*An Inquiry into the Nature and Causes of the Wealth of Nations. Bk. 2, Ch. 4.

There is also a risk involved in mortgage lending at the present time which is common to all types of loans. That is the fact that the purchasing power of money will probably drop considerably before the principal is repaid. In fact, the drop in purchasing power will probably be so great that the interest secured will not be sufficient to offset it. We think it entirely probable that all loans made today for a period of ten or fifteen years in reality carry a negative rate of interest. The purchasing power of the principal and the interest returned to the lender will not be equal to the purchasing power which is loaned. This was quite evident in loans made during the first World War period, and there seems no reason to believe that the same thing will not occur again.

It is also well to remember in considering the risk element as a "loading" of the interest rate, that any savings which this "loading" has brought about have already been made and that no further reduction from this cause can be expected in the period ahead. In fact, as inflation becomes more evident, more and more lenders will realize the risk involved in a decrease in the purchasing power of the money and will expect some "loading" of the rate to compensate for this loss. (Past experience in similar periods, however, has indicated that mortgage lenders are always too optimistic and that the "loading" is never sufficient to offset a negative rate.)

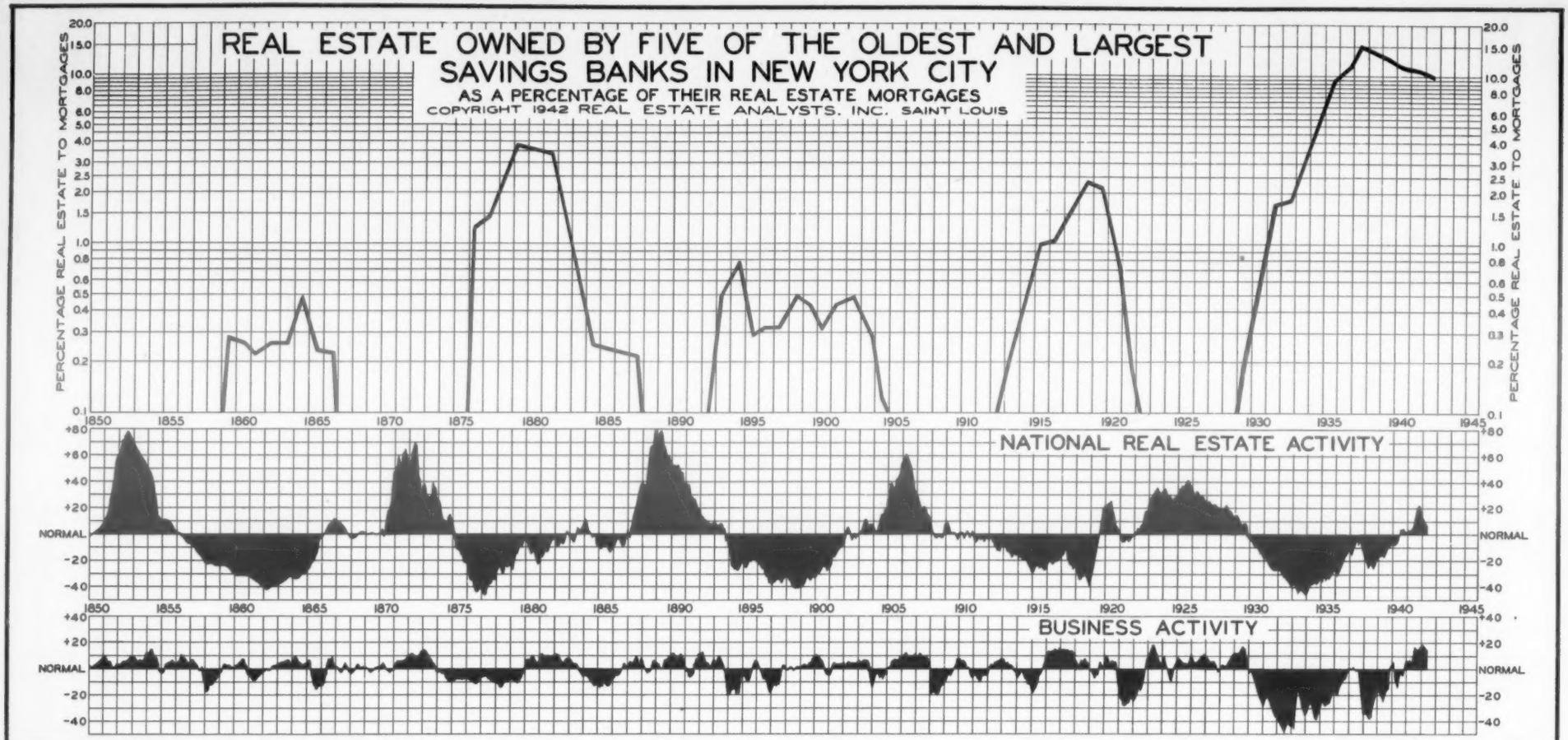
2. A second element of "loading" in every mortgage interest rate has been a payment for the lack of liquidity. Clearly, an investor having the choice of a number of different investments, all entailing the same risk and all paying the same return, everything else being equal, would select the investment which gave him the assurance that he could secure the return of his money at any time he desired. Mortgages in the past were never liquid. In fact, many properties have never been owned clear. As a mortgage became due, it was either renewed or paid off by a new mortgage on the property. If the mortgage were very conservatively made there was a limited market in which it could be resold but the market was too uncertain, especially in periods of economic stress. When money was most badly needed, it could not be secured.

The FHA mortgage has a high degree of liquidity as there are several conversion methods available. It can be used as collateral for advances from a Federal Reserve Bank by any member bank. Any FHA approved mortgagee meeting prescribed qualifications may borrow on this collateral from the Federal Home Loan Bank, regardless of whether or not he is a member of the Federal Home Loan Bank system. Another method of realizing cash from an FHA insured mortgage is by outright sale to FHA approved institutional investors such as banks and trust companies, savings banks, building and loan associations, etc. The Federal National Mortgage Association (Fannie Mae) has been created to establish a permanent market for FHA insured mortgages. Any insured mortgage will be purchased by the FNMA providing it is in good standing at the time of sale.

All national banking examiners have been instructed by the Comptroller of the Currency to classify FHA mortgages as liquid and not to rate them as slow, doubtful, or as a loss.

A decreased "loading" in the rate due to the greater liquidity of insured mortgages is an accomplished fact, but it must be kept in mind that no further reductions from the present level are now possible.

(Continued on page 159)


REAL ESTATE OWNED BY FIVE OF THE OLDEST AND LARGEST SAVINGS BANKS IN NEW YORK CITY
AS A PERCENTAGE OF THEIR REAL ESTATE MORTGAGES
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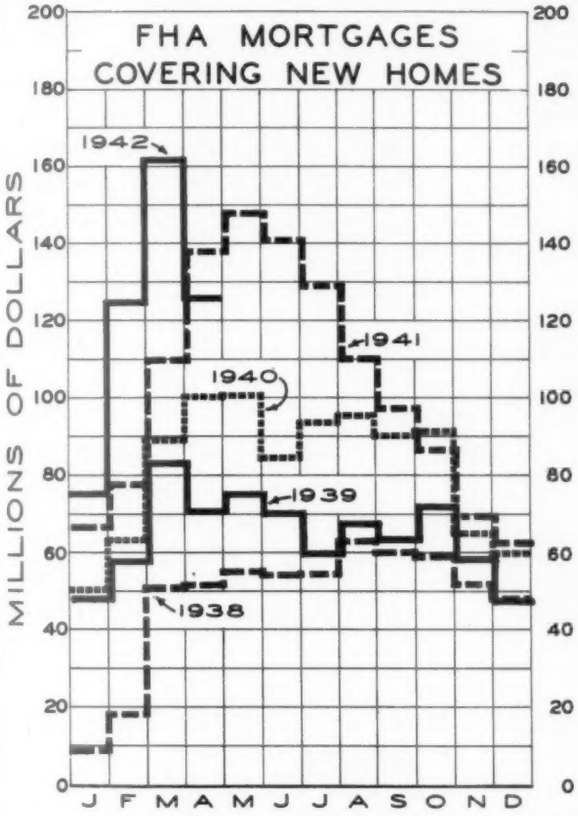
PERCENTAGE REAL ESTATE TO MORTGAGES
NATIONAL REAL ESTATE ACTIVITY
BUSINESS ACTIVITY
NORMAL

THE chart above shows the results of a study of real estate taken over during the depressions of the past 90 years by five of the largest and oldest savings banks in New York City. Each of these banks furnished us with the information over the entire period of its history on the total volume of real estate loans and the amount of real estate owned each year. In this study we have shown on the upper part of the chart the real estate owned each year as a percentage of the total volume of real estate mortgages held. On the central portion of the chart we have shown the booms and depressions in real estate and along the bottom of the chart, the booms and depressions in general business as depicted by the Cleveland Trust Company.

Real estate has been taken over by these banks not during the general business depressions necessarily, but always during the long real estate depressions that sometimes move quite independently of the general business situation. In every real estate depression real estate owned has increased markedly. The slowness of the liquidation in the present depression is due largely to the real estate tax situation in New York which has retarded very decidedly the recovery of real estate there.



THE chart to the left shows a comparison of FHA mortgages for the past five years covering only new homes to be built. It will be noticed that during the first three months of 1942 this volume of financing greatly exceeded the volume of a year ago.

In March of 1942, mortgages selected for appraisal by the FHA covering homes to be constructed totalled 38,207 in comparison with 23,773 in March of 1941. The April figures, however, do not show the same gain.

In our opinion FHA financing will run fairly high during the summer with a falling off in the last half of the year. We believe that a large part of the defense migrations will have passed their peaks this year. Because of the shortages of critical materials, it will be very difficult to secure priorities for any type of housing by late fall.

This chart should not be confused with the chart formerly published in the Real Estate Analyst which showed the total mortgage volume of the FHA on both new and existing construction.

MORTGAGE INTEREST RATES

3. The gross mortgage rate necessarily contains a "loading" to take care of the cost of keeping a fund of money continuously invested. It involves the original analysis of the investment, the periodic collection of interest, the keeping of the necessary accounts, the checking on taxes paid and many other similar supervisory services. It does not seem to us that this management "loading" has been greatly reduced, although some institutions that accept any mortgage which the Government will insure without any investigation of their own have undoubtedly reduced some of the initial management costs. It still remains to be seen, however, whether the management cost of keeping the money invested in these particular cases will not average out higher than it will in cases where more discretion is used in the selection of loans.

In addition to the "loading" to take care of these three items, the basic part of the gross mortgage interest rate is, of course, pure interest. By pure interest we mean the return to capital that would be necessary to attract sufficient capital into the market if there were no risk whatever involved in the investment, if it required no supervision and if the capital so invested could be withdrawn freely at any time. In other words, pure interest is a payment for the postponement of the enjoyment of goods and services to some future date. The interest on certain types of Government bonds would come very near to being pure interest, if it were not for the tax exemption feature. Tax exemption has made persons with larger incomes willing to forego higher interest rates in order to secure a greater net return after taxes. Probably the interest rates on the most conservative industrial or utility bonds now approximate pure interest.

(Continued on page 160)

MORTGAGE INTEREST RATES

(Continued from page 159)

The long chart to the right has been reprinted from previous issues of the Real Estate Analyst and has been brought up to date. The large band at the top of the chart reconstructs the past experience on mortgage interest rates computed from records which are available on all real estate mortgages recorded on Manhattan Island from 1879 to the present.

In this study all mortgage extensions, consolidations and agreements were eliminated; but purchase money mortgages were retained in the final tabulation. We realize that the inclusion of purchase money mortgages in a period like the present increases the percentage of mortgages made at lower rates of interest, as it is quite apparent from our figures that during the past few years a large number of mortgage institutions - in order to dispose of property they consider undesirable - have been selling properties with a heavy purchase money mortgage at a rate of interest much below the rate they would accept on a new loan. This was also true, to some extent, in the early 1900's when property accumulated during the big depression of the nineties was being liquidated.

The chart on page 166 shows the mortgage interest rates on Manhattan Island reduced to an average rate over this entire period compared with the dollar volume of mortgages on Manhattan Island and compared with the average interest rate in St. Louis from 1893 to the present.

It should be pointed out that mortgage interest rate fluctuations on Manhattan Island do not show any of the effects brought about by the FHA, as relatively few FHA loans have been made on Manhattan. Practically all Manhattan mortgages have been either on large apartments or on large office buildings in which the risk and liquidity element continues much as it did in pre-FHA days.

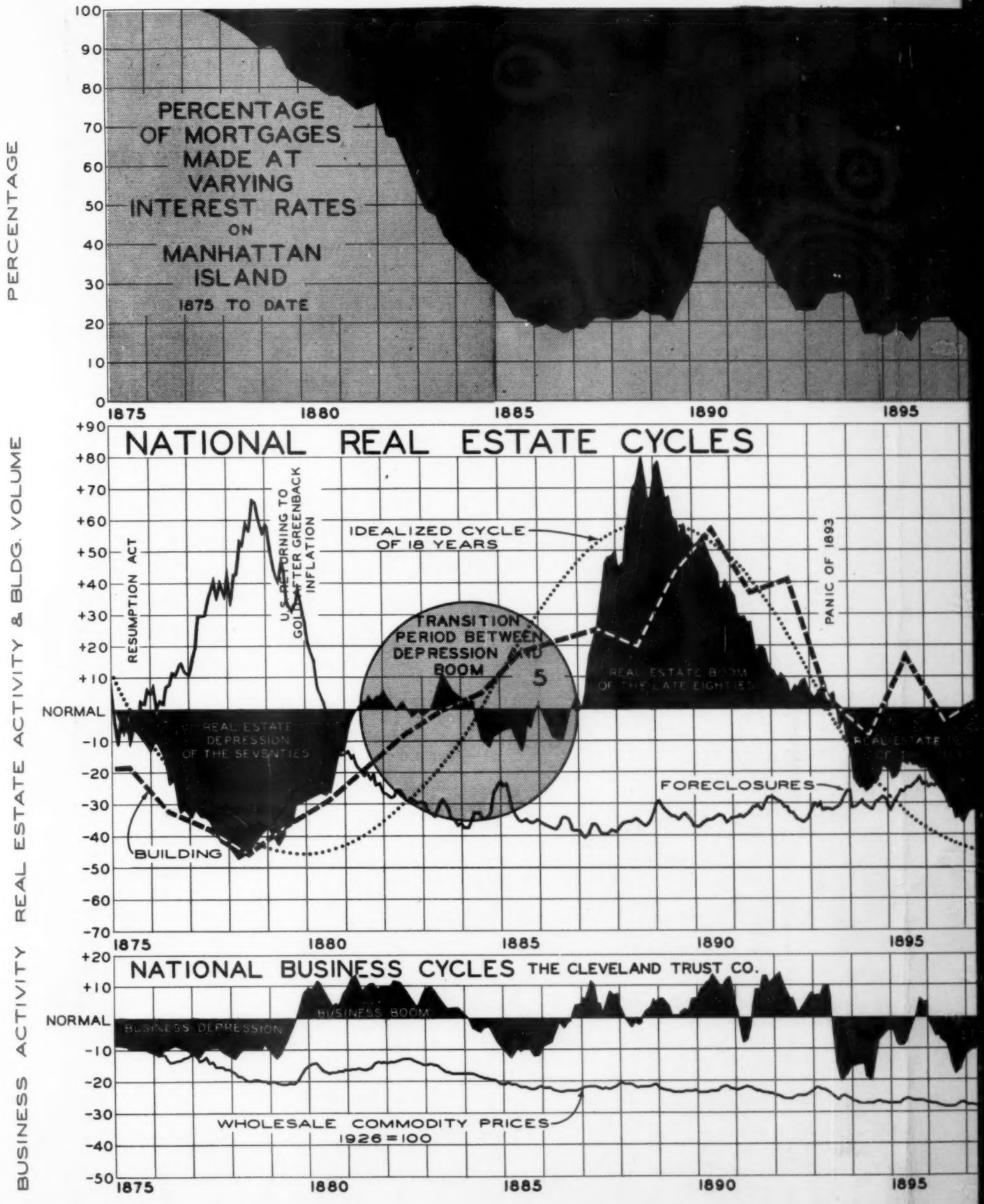
We believe that the average interest rate as shown for St. Louis on page 166 more nearly represents the situation as it applies to single-family residence financing. So far the St. Louis line has not shown any rise.

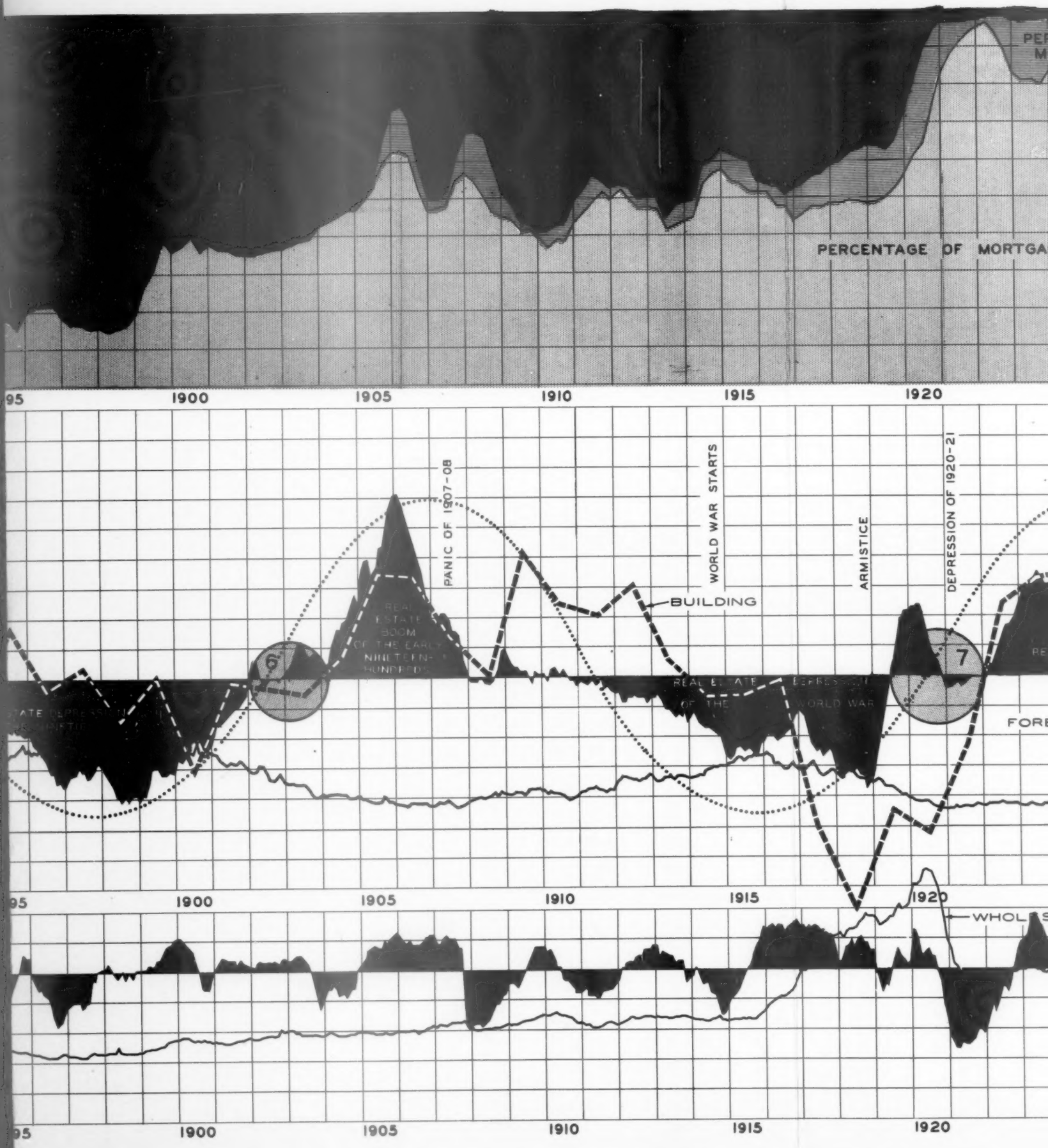
A close inspection of the dollar volume of new mortgages recorded for Manhattan Island and the average interest rate on Manhattan Island as shown on the chart on page 166 highlights a number of interesting similarities.

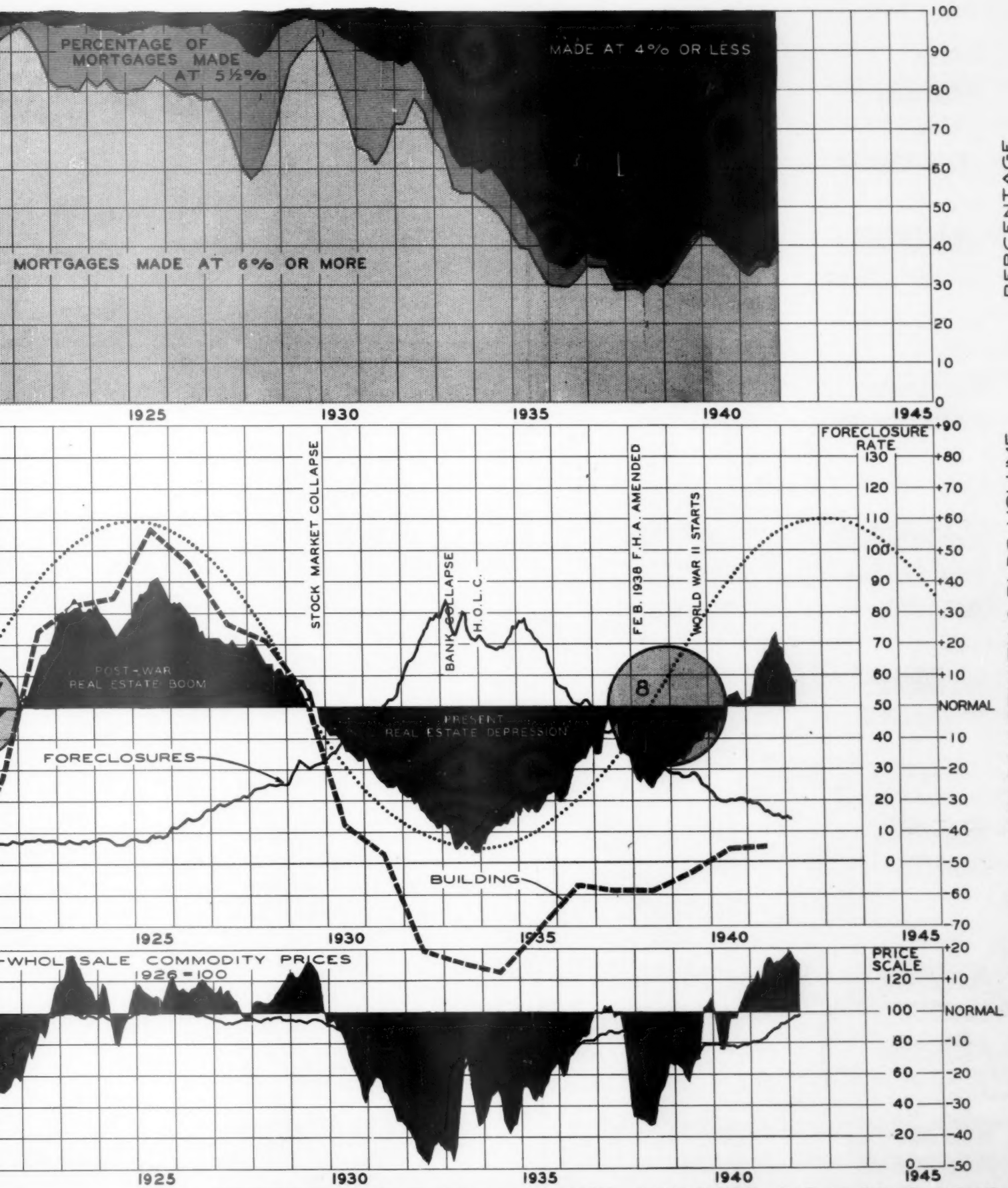
From 1885 to 1890 interest rates were recovering from the rapid drops of the early eighties. The rise in interest rates was particularly rapid during the latter part of this period. This increase in interest rates was undoubtedly caused, at least to some degree, by the rapid rise in mortgage volume at that time, as shown on the lower chart. Interest rates again hit a very low spot in 1898, then recovered to a temporary peak in 1900. This seems a logical result of the increasing mortgage volume from 1897 to 1899.

Interest rates then went to a very decided peak in 1906, accompanying a tremendous increase in mortgage financing from 1900 to 1905. In 1918 the dollar volume of mortgages set a new low from which it bounded to a new all-time high in 1925. This was accompanied by a rapid rise in the average interest

(Continued on page 167)


PERCENTAGE OF MORTGAGES MADE AT VARYING INTEREST RATES ON MANHATTAN ISLAND 1875 TO DATE
PERCENTAGE
100
90
80
70
60
50
40
30
20
10
0
1875
1880
1885
1890
1895
BUSINESS ACTIVITY REAL ESTATE ACTIVITY & BLDG. VOLUME
NATIONAL REAL ESTATE CYCLES
+90
+80
+70
+60
+50
+40
+30
+20
+10
NORMAL
-10
-20
-30
-40
-50
-60
-70
RESUMPTION ACT
U.S. RETURNING TO GOLD AFTER GREENBACK INFLATION
IDEALIZED CYCLE OF 18 YEARS
TRANSITION PERIOD BETWEEN DEPRESSION AND BOOM
5
PANIC OF 1893
REAL ESTATE BOOM OF THE LATE EIGHTIES
REAL ESTATE DEPRESSION OF THE SEVENTIES
FORECLOSURES
BUILDING
1875
1880
1885
1890
1895
NATIONAL BUSINESS CYCLES THE CLEVELAND TRUST CO.
+20
+10
NORMAL
-10
-20
-30
-40
-50
BUSINESS BOOM
BUSINESS DEPRESSION
WHOLESALE COMMODITY PRICES
1926=100
1875
1880
1885
1890
1895


PERCENTAGE OF MORTGA
95
1900
1905
1910
1915
1920
PANIC OF 1907-08
WORLD WAR STARTS
ARMISTICE
DEPRESSION OF 1920-21
BUILDING
REAL ESTATE BOOM OF THE EARLY NINETEEN-HUNDREDS
6
7
REAL ESTATE DEPRESSION OF THE WORLD WAR
FORE
WHOL
95
1900
1905
1910
1915
1920
95
1900
1905
1910
1915
1920



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OWNER OCCUPIED HOMES IN CALIFORNIA

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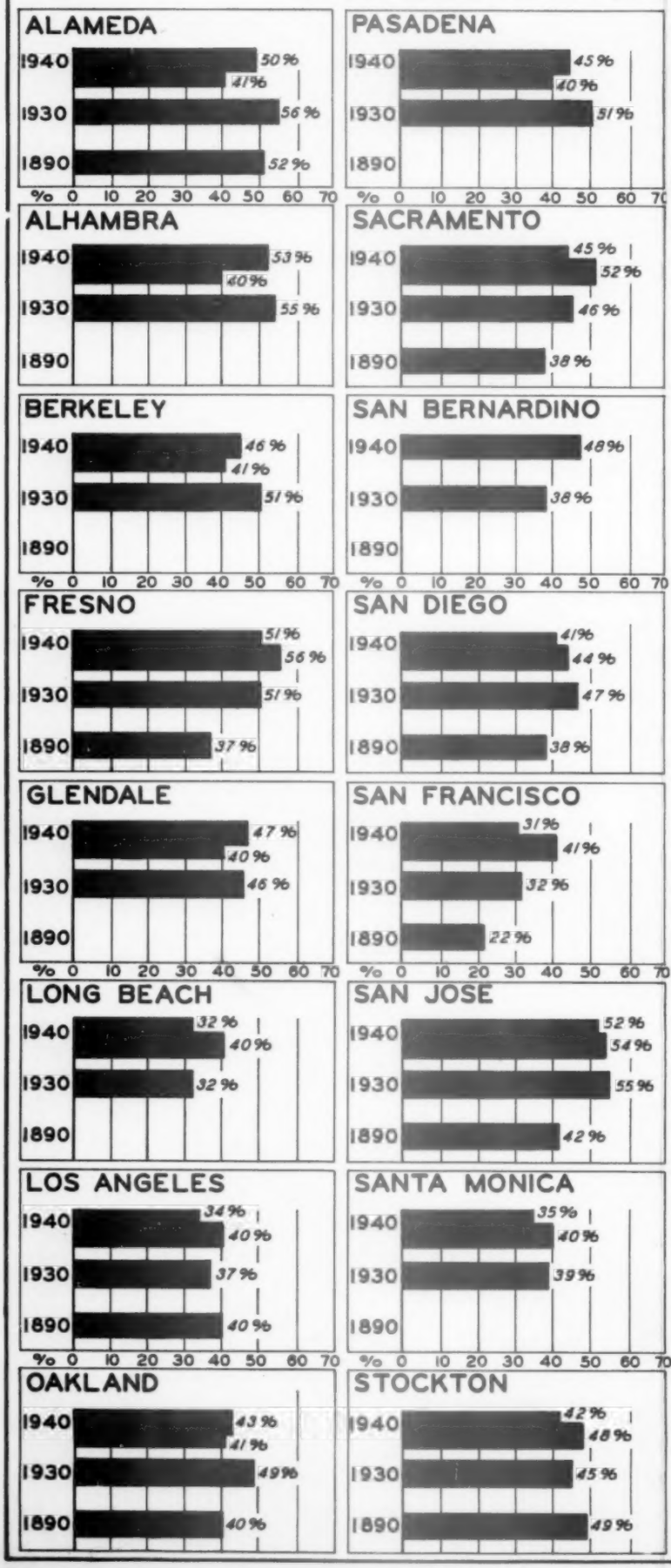
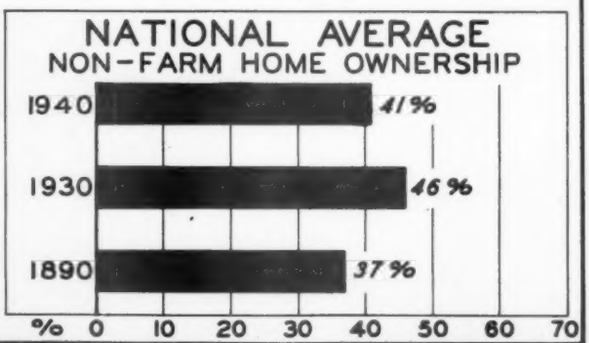


IN the Real Estate Analyst of April 30, 1942, home ownership figures from the 1940 Federal Census were charted for 218 cities. However, at that time the figures had not been released for the cities in the states of California, Illinois, New York and Pennsylvania. California figures are now available and are shown by the charts to the left. The black bars on these charts show the percentage of dwelling units that were owner occupied in 1940, 1930 and 1890. The red bar on the charts shows the percentage of home ownership in the metropolitan district of which the city forms the principal part.

A number of the cities in the list are in the same metropolitan districts. Accordingly the red bar will be found to be the same, as in each case this bar gives the percentage for the principal city with all of its suburbs.

Alhambra, Glendale, Long Beach, Pasadena, and Santa Monica are all included in the metropolitan area of Los Angeles. Alameda, Berkeley and Oakland are in the metropolitan area of San Francisco.



RENTAL INDEX DISCONTINUED

BECAUSE of rent control in every city on which we have computed rent figures, there is no longer sufficient reason to continue the indexes of rents which we have run in our reports during the past ten years. We are, however, continuing to compute these figures on a number of the cities for our own information, and if any significant developments occur in the figures, we will, of course, immediately bring them to the attention of our subscribers.

A national index of residential rents will necessarily show a slight downward trend during the period of the emergency. This will result from the fact that no rent can increase and some rent will decrease. In non-defense areas that have lost population, the rents of the least popular units will drop; the rents of very high-priced units in all cities will drop because of the heavier taxation on persons of large incomes. New York and Chicago will suffer badly in this respect. As these higher priced units in most cities form a very small percentage of the total number of units in the city, the drop in the average rent figures for the city will be slight.

BUILDING COSTS OF A STANDARD SIX ROOM FRAME RESIDENCE BUILT IN ST. LOUIS

The chart on p. 197 of the August 1940 Real Estate Analyst shows the variations in the costs of materials, labor and overhead for a six room frame residence in St. Louis. Floor plans and a picture of the house are shown with the chart. Costs are grouped into four classifications of material, four of labor and three of overhead. A further breakdown of these groups is given in detail below. Columns of the table are numbered. and a brief description of the items included in each is given in the paragraphs below. Paragraphs are numbered to correspond with the columns described. Building material costs are printed in black; the corresponding labor items are given in red. Overhead items - columns 13, 14, and 15 are also printed in black.

Group A.

(1) Mason Materials: Cement, sand, gravel, quick lime, hydrated lime, hard wall plaster, face and common brick, fire brick, flue lining. Labor.

(2) Tile Materials: 4¼ x 4¼ wall tile, ceramic floor tile, cap and base. Labor.

Group B:

(3) Unfinished Lumber: Columns, beams, floor and ceiling joists, interior and exterior studs, rafters, bracing, etc. Labor.

(4) Finished Lumber: Sub-flooring, sheathing, beveled siding, finished floors, asphalt shingle roofing, roofing felt, tar paper, shutters, etc. Labor.

(5) Mill Work: Windows, doors, trim, kitchen cabinet, stairs. Labor.

Group C:

(6) Heating: Boiler, insulating jackets, fittings, tools, pipes, connections, valves and radiation. Labor.

(7) Plumbing: Soil pipes and connections, stack, water pipe and connections, lead oakum and bathroom fixtures; hot water heater and tank to be furnished by others. Labor.

Group D:

(8) Sheet Metal: Galv. iron gutters, downspouts, flashing. Labor.

(9) Electrical Work: Main switch, BX cable, switch boxes, receptacles, transformer, etc. No fixtures included. Labor.

(10) Nails and Hardware: Common and wire nails, bolts, damper, ash doors, finish hardware.

(11) Paint Materials: White lead, linseed oil, turpentine. Labor.

(12) Misc.: Metal & wood laths, corner bead, insulation. Labor.

Group E:

(13) Overhead and profit of subcontractors in plastering, metal work, heating, plumbing, electrical work and tile work.

(14) General contractor's profit.

(15) Missouri sales tax (now 2% on materials), old age and unemployment tax (federal and state), liability and employees' compensation insurance, fire and tornado insurance, completion bond.

(16) TOTAL CONSTRUCTION COST.

*No labor items are shown in column 13, Building Hardware, as they have already been included in column 5, Mill Work.

	GROUP A				GROUP B						GROUP C				GROUP D								GROUP E			TOTAL
YEAR	(1)		(2)		(3)		(4)		(5)		(6)		(7)		(8)		(9)		(10)		(11)		(12)		(13)	(14)	(15)	(16)
J1 1939	$516	$561	$103	$77	$346	$164	$639	$219	$508	$198	$239	$160	$271	$131	$46	$19	$26	$57	$64 *		$29	$116	$191	$61	$346	$507	$329	$5923
O 1939	510	561	103	77	395	164	713	219	509	198	239	160	285	131	52	19	29	57	65		30	116	193	61	353	522	335	6096
Ja 1940	510	538	103	77	374	158	679	215	567	195	236	160	282	131	58	17	32	57	65		30	93	193	61	352	516	327	6005
Ap 1940	510	538	103	77	371	158	651	215	566	195	236	160	285	131	63	17	35	57	65		30	93	193	61	352	516	327	6004
J1 1940	510	538	103	77	371	158	651	215	566	195	236	160	285	131	63	17	35	57	65		30	93	193	61	352	516	327	6004
Ag 1940	510	556	103	77	415	158	735	215	604	195	236	160	285	161	63	17	31	57	66		30	93	201	69	361	540	341	6278
S 1940	510	556	145	77	448	158	736	215	604	195	236	160	301	161	63	17	31	57	66		30	93	195	69	379	551	345	6400
O 1940	510	542	145	86	494	162	763	218	628	197	254	160	294	161	63	17	31	57	66		32	93	203	75	385	564	351	6551
N 1940	510	542	145	86	493	162	805	218	646	197	254	160	295	161	62	17	27	57	66		32	93	203	75	385	569	351	6611
D 1940	510	640	145	86	493	182	805	243	645	219	242	160	266	161	62	19	27	58	66		32	104	203	78	380	585	375	6786
Ja 1941	515	640	145	86	493	182	808	243	645	219	242	160	266	161	62	19	28	58	67		33	104	203	78	380	585	375	6797
F 1941	515	639	145	86	493	182	753	243	633	219	251	180	269	149	62	19	28	63	69		33	131	203	78	387	583	376	6789
Mr 1941	487	639	145	86	465	182	748	243	633	219	251	180	269	149	62	19	28	63	69		33	131	202	79	388	577	374	6721
Ap 1941	487	639	159	86	463	182	771	243	633	219	251	180	274	149	62	19	28	63	69		33	131	202	79	396	581	376	6775
My 1941	508	639	159	86	448	197	732	265	635	240	250	180	274	149	62	19	23	63	72		33	131	205	79	396	585	381	6811
Je 1941	510	639	159	86	441	201	785	268	635	242	250	180	274	149	73	19	25	63	72		33	131	203	79	396	591	384	6888
J1 1941	510	650	159	86	553	220	802	279	635	252	250	180	274	149	90	19	27	63	72		34	131	220	79	396	613	397	7142
Ag 1941	510	650	159	86	574	220	845	279	689	252	262	180	292	149	90	19	27	63	72		34	131	220	79	406	629	400	7317
S 1941	514	678	159	86	563	226	865	303	689	274	262	200	289	187	106	29	33	72	79		35	131	221	79	433	649	422	7584
O 1941	514	678	159	86	544	226	861	303	689	274	262	200	289	187	106	29	34	72	80		35	145	227	79	433	650	422	7584
N 1941	514	678	159	86	535	226	866	303	689	274	262	200	289	187	106	29	39	72	79		35	145	227	79	433	650	422	7584
D 1941	514	678	159	86	535	231	847	305	689	275	262	200	298	187	106	29	44	72	79		35	145	229	79	434	651	423	7592
Ja 1942	514	696	175	86	536	231	854	305	689	275	262	200	314	187	64	29	48	72	79		35	145	229	81	431	653	423	7617
F 1942	514	696	175	86	540	231	868	305	715	275	262	200	324	187	64	29	49	72	79		37	145	229	81	433	660	424	7682
Mr 1942	520	696	175	86	540	231	874	305	715	275	262	200	323	187	64	29	49	72	79		38	145	229	81	433	661	424	7695
Ap 1942	520	696	175	86	547	231	876	305	715	275	273	200	317	187	64	29	50	72	79		38	145	229	81	433	663	424	7712
My 1942	520	709	175	86	540	233	874	307	715	276	273	200	317	198	72	29	50	86	79		38	145	229	81	442	668	428	7772

OWNER OCCUPIED HOMES IN CALIFORNIA

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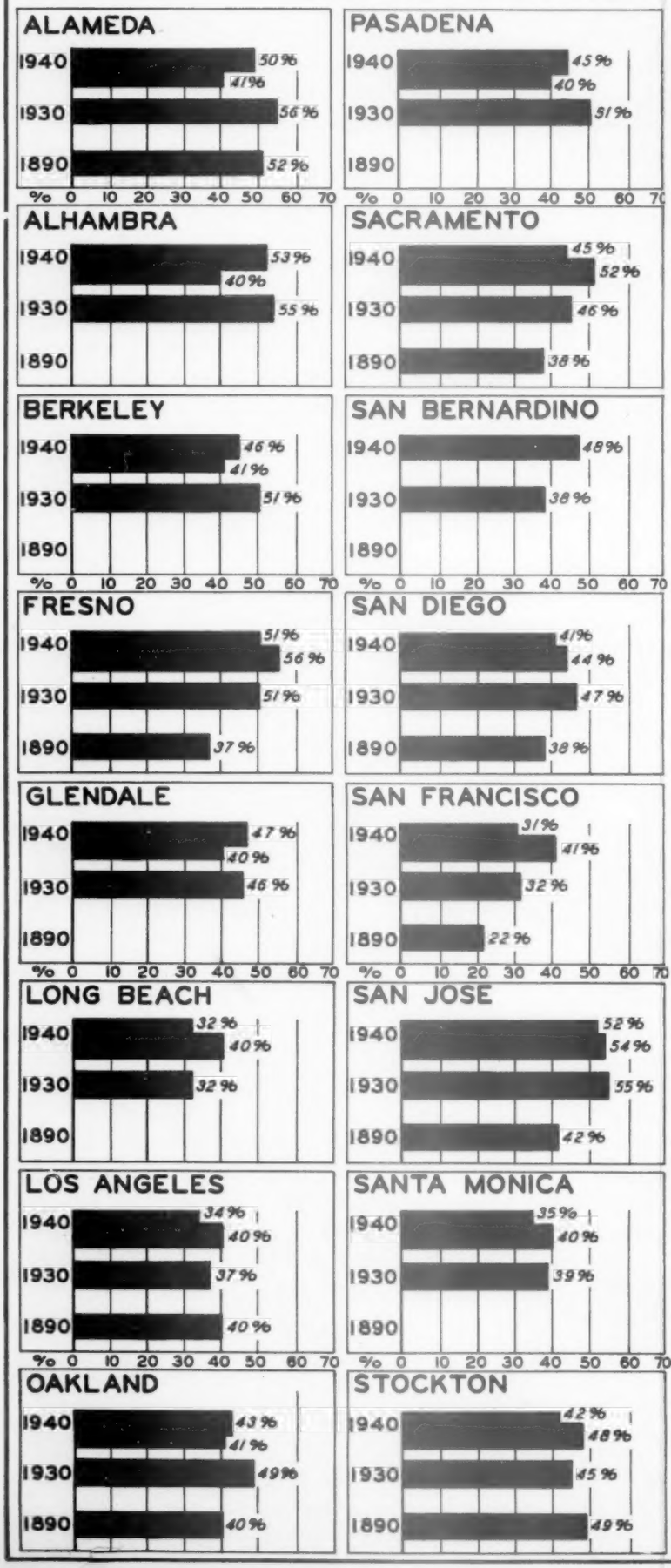
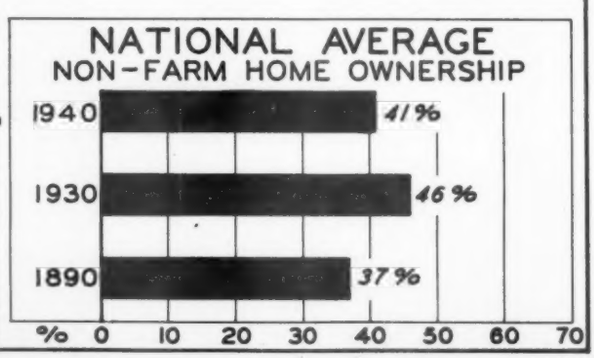


IN the Real Estate Analyst of April 30, 1942, home ownership figures from the 1940 Federal Census were charted for 218 cities. However, at that time the figures had not been released for the cities in the states of California, Illinois, New York and Pennsylvania. California figures are now available and are shown by the charts to the left. The black bars on these charts show the percentage of dwelling units that were owner occupied in 1940, 1930 and 1890. The red bar on the charts shows the percentage of home ownership in the metropolitan district of which the city forms the principal part.

A number of the cities in the list are in the same metropolitan districts. Accordingly the red bar will be found to be the same, as in each case this bar gives the percentage for the principal city with all of its suburbs.

Alhambra, Glendale, Long Beach, Pasadena, and Santa Monica are all included in the metropolitan area of Los Angeles. Alameda, Berkeley and Oakland are in the metropolitan area of San Francisco.



RENTAL INDEX DISCONTINUED

BECAUSE of rent control in every city on which we have computed rent figures, there is no longer sufficient reason to continue the indexes of rents which we have run in our reports during the past ten years. We are, however, continuing to compute these figures on a number of the cities for our own information, and if any significant developments occur in the figures, we will, of course, immediately bring them to the attention of our subscribers.

A national index of residential rents will necessarily show a slight downward trend during the period of the emergency. This will result from the fact that no rent can increase and some rent will decrease. In non-defense areas that have lost population, the rents of the least popular units will drop; the rents of very high-priced units in all cities will drop because of the heavier taxation on persons of large incomes. New York and Chicago will suffer badly in this respect. As these higher priced units in most cities form a very small percentage of the total number of units in the city, the drop in the average rent figures for the city will be slight.

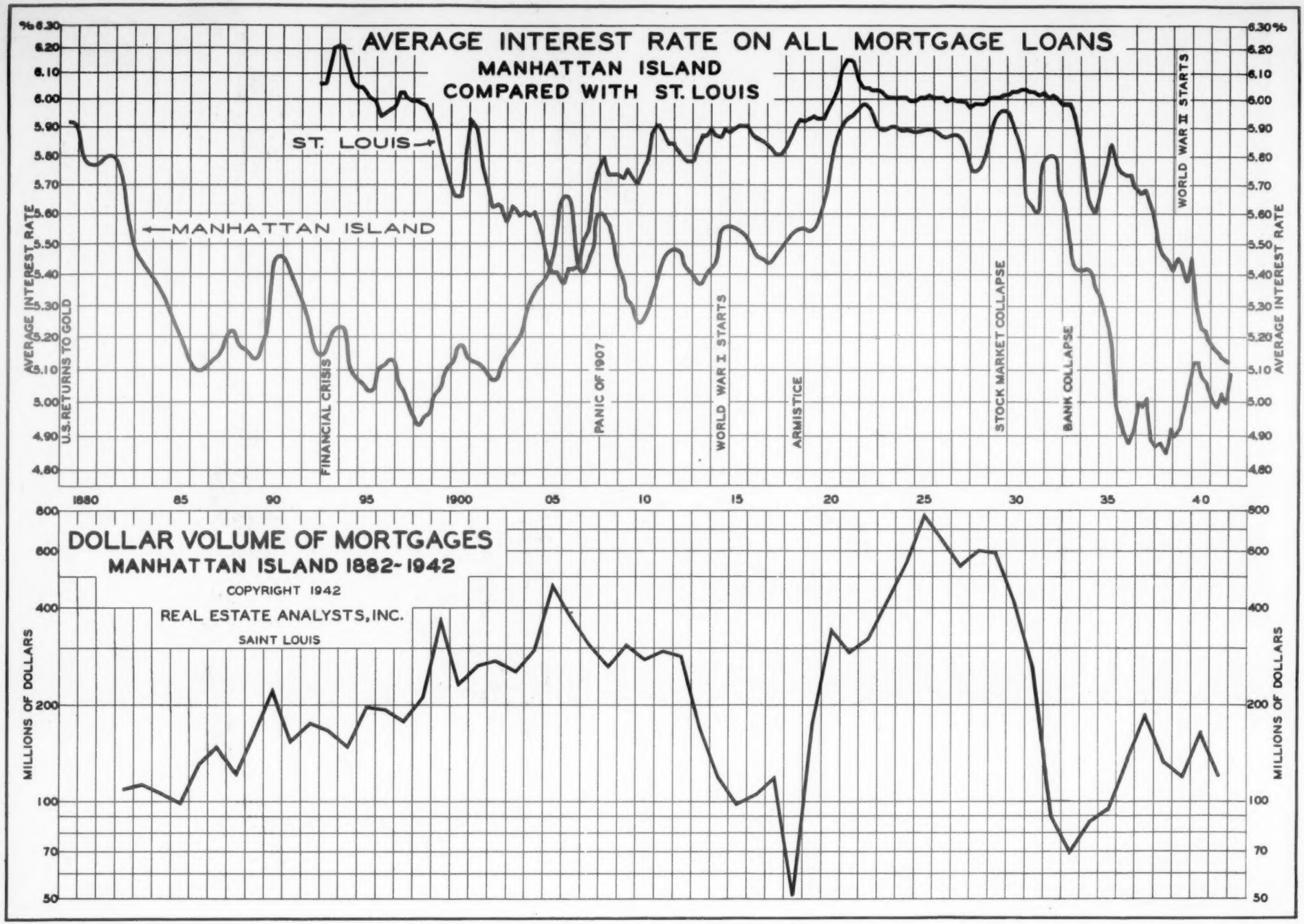
BUILDING COSTS OF A STANDARD SIX ROOM FRAME RESIDENCE BUILT IN ST. LOUIS

The chart on p. 197 of the August 1940 Real Estate Analyst shows the variations in the costs of materials, labor and overhead for a six room frame residence in St. Louis. Floor plans and a picture of the house are shown with the chart. Costs are grouped into four classifications of material, four of labor and three of overhead. A further breakdown of these groups is given in detail below. Columns of the table are numbered. and a brief description of the items included in each is given in the paragraphs below. Paragraphs are numbered to correspond with the columns described. Building material costs are printed in black; the corresponding labor items are given in red. Overhead items - columns 13, 14, and 15 are also printed in black.

Group A.
(1) Mason Materials: Cement, sand, gravel, quick lime, hydrated lime, hard wall plaster, face and common brick, fire brick, flue lining. Labor.
(2) Tile Materials: 4¼ x 4¼ wall tile, ceramic floor tile, cap and base. Labor.
Group B:
(3) Unfinished Lumber: Columns, beams, floor and ceiling joists, interior and exterior studs, rafters, bracing, etc. Labor.
(4) Finished Lumber: Sub-flooring, sheathing, beveled siding, finished floors, asphalt shingle roofing, roofing felt, tar paper, shutters, etc. Labor.
(5) Mill Work: Windows, doors, trim, kitchen cabinet, stairs. Labor.
Group C:
(6) Heating: Boiler, insulating jackets, fittings, tools, pipes, connections, valves and radiation. Labor.
(7) Plumbing: Soil pipes and connections, stack, water pipe and connections, lead oakum and bathroom fixtures; hot water heater and tank to be furnished by others. Labor.
Group D:
(8) Sheet Metal: Galv. iron gutters, downspouts, flashing. Labor.
(9) Electrical Work: Main switch, BX cable, switch boxes, receptacles, transformer, etc. No fixtures included. Labor.
(10) Nails and Hardware: Common and wire nails, bolts, damper, ash doors, finish hardware.
(11) Paint Materials: White lead, linseed oil, turpentine. Labor.
(12) Misc.: Metal & wood laths, corner bead, insulation. Labor.
Group E:
(13) Overhead and profit of subcontractors in plastering, metal work, heating, plumbing, electrical work and tile work.
(14) General contractor's profit.
(15) Missouri sales tax (now 2% on materials), old age and unemployment tax (federal and state), liability and employees' compensation insurance, fire and tornado insurance, completion bond.
(16) TOTAL CONSTRUCTION COST.

*No labor items are shown in column 13, Building Hardware, as they have already been included in column 5, Mill Work.

	GROUP A				GROUP B					GROUP C				GROUP D							GROUP E			TOTAL
YEAR	(1)		(2)		(3)		(4)		(5)	(6)		(7)		(8)		(9)		(10)	(11)		(12)	(13)	(14)	(15)	(16)
J1 1939	$516	$561	$103	$77	$346	$164	$639	$219	$508	$198	$239	$160	$271	$131	$46	$19	$26	$57	$64 *	$29	$116	$191	$61	$346	$507	$329	$5923
O 1939	510	561	103	77	395	164	713	219	509	198	239	160	285	131	52	19	29	57	65	30	116	193	61	353	522	335	6096
Ja 1940	510	538	103	77	374	158	679	215	567	195	236	160	282	131	58	17	32	57	65	30	93	193	61	352	516	327	6005
Ap 1940	510	538	103	77	371	158	651	215	566	195	236	160	285	131	63	17	35	57	65	30	93	193	61	352	516	327	6004
J1 1940	510	538	103	77	371	158	651	215	566	195	236	160	285	131	63	17	35	57	65	30	93	193	61	352	516	327	6004
Ag 1940	510	556	103	77	415	158	735	215	604	195	236	160	285	161	63	17	31	57	66	30	93	201	69	361	540	341	6278
S 1940	510	556	145	77	448	158	736	215	604	195	236	160	301	161	63	17	31	57	66	30	93	195	69	379	551	345	6400
O 1940	510	542	145	86	494	162	763	218	628	197	254	160	294	161	63	17	31	57	66	32	93	203	75	385	564	351	6551
N 1940	510	542	145	86	493	162	805	218	646	197	254	160	295	161	62	17	27	57	66	32	93	203	75	385	569	351	6611
D 1940	510	640	145	86	493	182	805	243	645	219	242	160	266	161	62	19	27	58	66	32	104	203	78	380	585	375	6786
Ja 1941	515	640	145	86	493	182	808	243	645	219	242	160	266	161	62	19	28	58	67	33	104	203	78	380	585	375	6797
F 1941	515	639	145	86	493	182	753	243	633	219	251	180	269	149	62	19	28	63	69	33	131	203	78	387	583	376	6789
Mr 1941	487	639	145	86	465	182	748	243	633	219	251	180	269	149	62	19	28	63	69	33	131	202	79	388	577	374	6721
Ap 1941	487	639	159	86	463	182	771	243	633	219	251	180	274	149	62	19	28	63	69	33	131	202	79	396	581	376	6775
My 1941	508	639	159	86	448	197	732	265	635	240	250	180	274	149	62	19	23	63	72	33	131	205	79	396	585	381	6811
Je 1941	510	639	159	86	441	201	785	268	635	242	250	180	274	149	73	19	25	63	72	33	131	203	79	396	591	384	6888
J1 1941	510	650	159	86	553	220	802	279	635	252	250	180	274	149	90	19	27	63	72	34	131	220	79	396	613	397	7142
Ag 1941	510	650	159	86	574	220	845	279	689	252	262	180	292	149	90	19	27	63	72	34	131	220	79	406	629	400	7317
S 1941	514	678	159	86	563	226	865	303	689	274	262	200	289	187	106	29	33	72	79	35	131	221	79	433	649	422	7584
O 1941	514	678	159	86	544	226	861	303	689	274	262	200	289	187	106	29	34	72	80	35	145	227	79	433	650	422	7584
N 1941	514	678	159	86	535	226	866	303	689	274	262	200	289	187	106	29	39	72	79	35	145	227	79	433	650	422	7584
D 1941	514	678	159	86	535	231	847	305	689	275	262	200	298	187	106	29	44	72	79	35	145	229	79	434	651	423	7592
Ja 1942	514	696	175	86	536	231	854	305	689	275	262	200	314	187	64	29	48	72	79	35	145	229	81	431	653	423	7617
F 1942	514	696	175	86	540	231	868	305	715	275	262	200	324	187	64	29	49	72	79	37	145	229	81	433	660	424	7682
Mr 1942	520	696	175	86	540	231	874	305	715	275	262	200	323	187	64	29	49	72	79	38	145	229	81	433	661	424	7695
Ap 1942	520	696	175	86	547	231	876	305	715	275	273	200	317	187	64	29	50	72	79	38	145	229	81	433	663	424	7712
My 1942	520	709	175	86	540	233	874	307	715	276	273	200	317	198	72	29	50	86	79	38	145	229	81	442	668	428	7772


AVERAGE INTEREST RATE ON ALL MORTGAGE LOANS
MANHATTAN ISLAND
COMPARED WITH ST. LOUIS
ST. LOUIS
MANHATTAN ISLAND
AVERAGE INTEREST RATE
U.S. RETURNS TO GOLD
FINANCIAL CRISIS
PANIC OF 1907
WORLD WAR I STARTS
ARMISTICE
STOCK MARKET COLLAPSE
BANK COLLAPSE
WORLD WAR II STARTS
1880
85
90
95
1900
05
10
15
20
25
30
35
40
DOLLAR VOLUME OF MORTGAGES
MANHATTAN ISLAND 1882-1942
COPYRIGHT 1942
REAL ESTATE ANALYSTS, INC.
SAINT LOUIS
MILLIONS OF DOLLARS

MORTGAGE INTEREST RATES

(Continued from page 160)

rate. From 1929 to 1936 the general trend in interest rates was down, as was the trend in mortgage volume during the initial part of this period. The rise in average interest rates since then has been due to better business conditions.

By comparing the long real estate activity chart with the long interest chart on pages 161-163, it is evident that financial panics have a tendency to drive up interest rates temporarily. This is quite apparent in the panics of 1893, 1907 and 1929.

The following conclusions seem to us to be logical from the data at hand:

1. The pure interest rate will increase slightly during the war and by a larger percentage after the war is over. This is purely a question of supply and demand, and with the tremendous amounts that must be raised by the Government for financing the war, it will be difficult to secure sufficient money at low rates to finance real estate.

The chart in the lower right hand corner of this page shows that interest rates during the first World War period made no decided advance until the United States entered the war. It will be remembered that until this time the Federal debt did not increase, the rapid rise starting in April 1917. Undoubtedly the Federal government will try in every way possible to hold down interest rates during the war and their efforts will meet with some success, making the rise far more gradual than would otherwise have been the case.

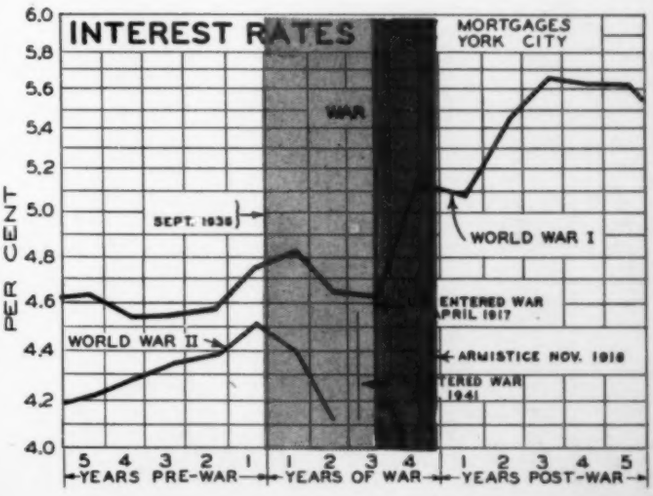
2. The risk element will increase because of the fact that loans will be made at higher construction costs and because of the shrinkage in the purchasing power of the dollar, which will make lenders more reluctant to lend on long-time commitments at low rates of interest. We believe that the combination of these factors will gradually increase the "loading" in the gross rate for risk.

3. We can foresee no change in the degree of liquidity in real estate mortgages that would materially change the "loading" for this factor.

4. The cost of keeping money invested may increase slightly because the many disturbing factors that will appear in the picture will necessitate more careful appraisals and inspections.

The four preceeding points indicate a period ahead in which interest rates will show no radical changes during the period of the war, with any change that does occur an upward one.

After the war we believe the upward movement will be more pronounced.



REAL ESTATE TRANSFERS IN PRINCIPAL CITIES

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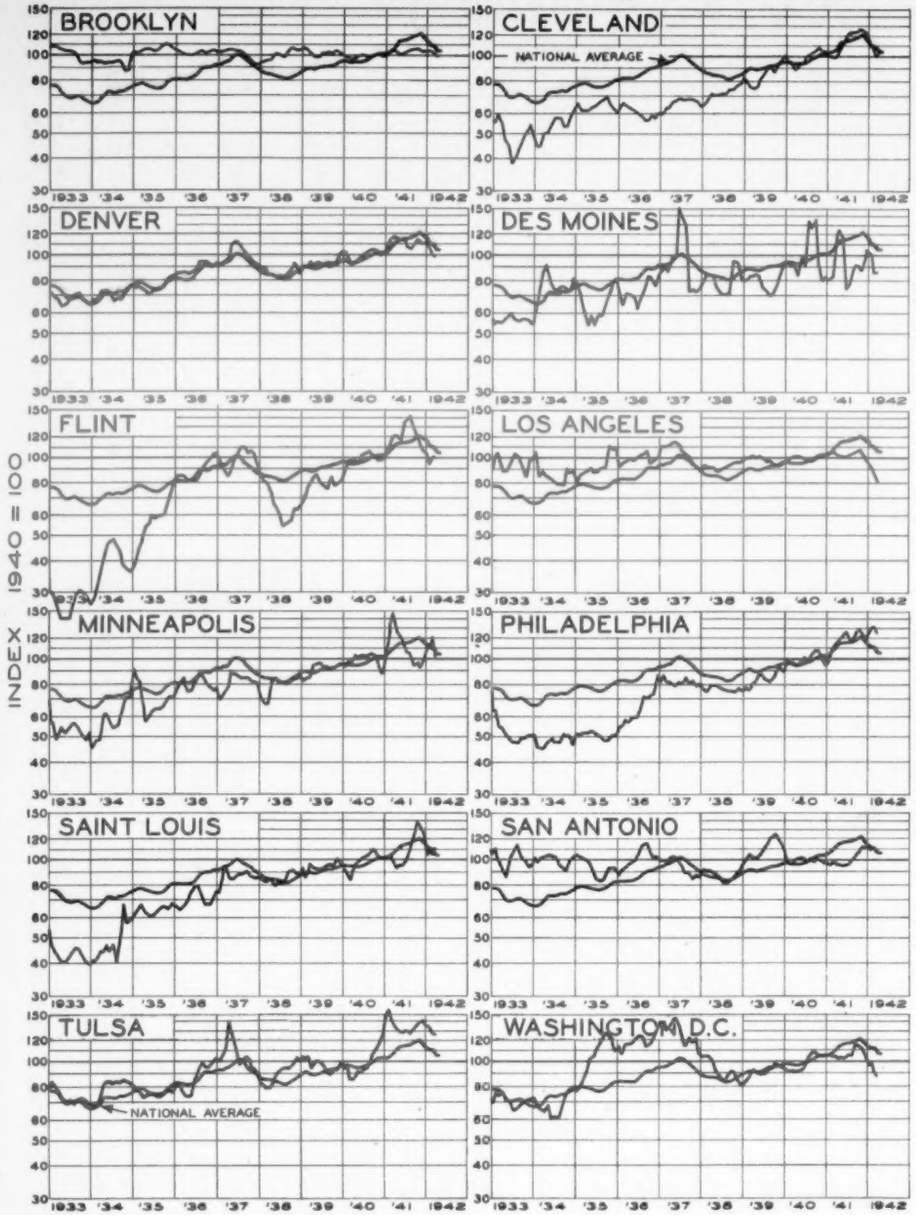
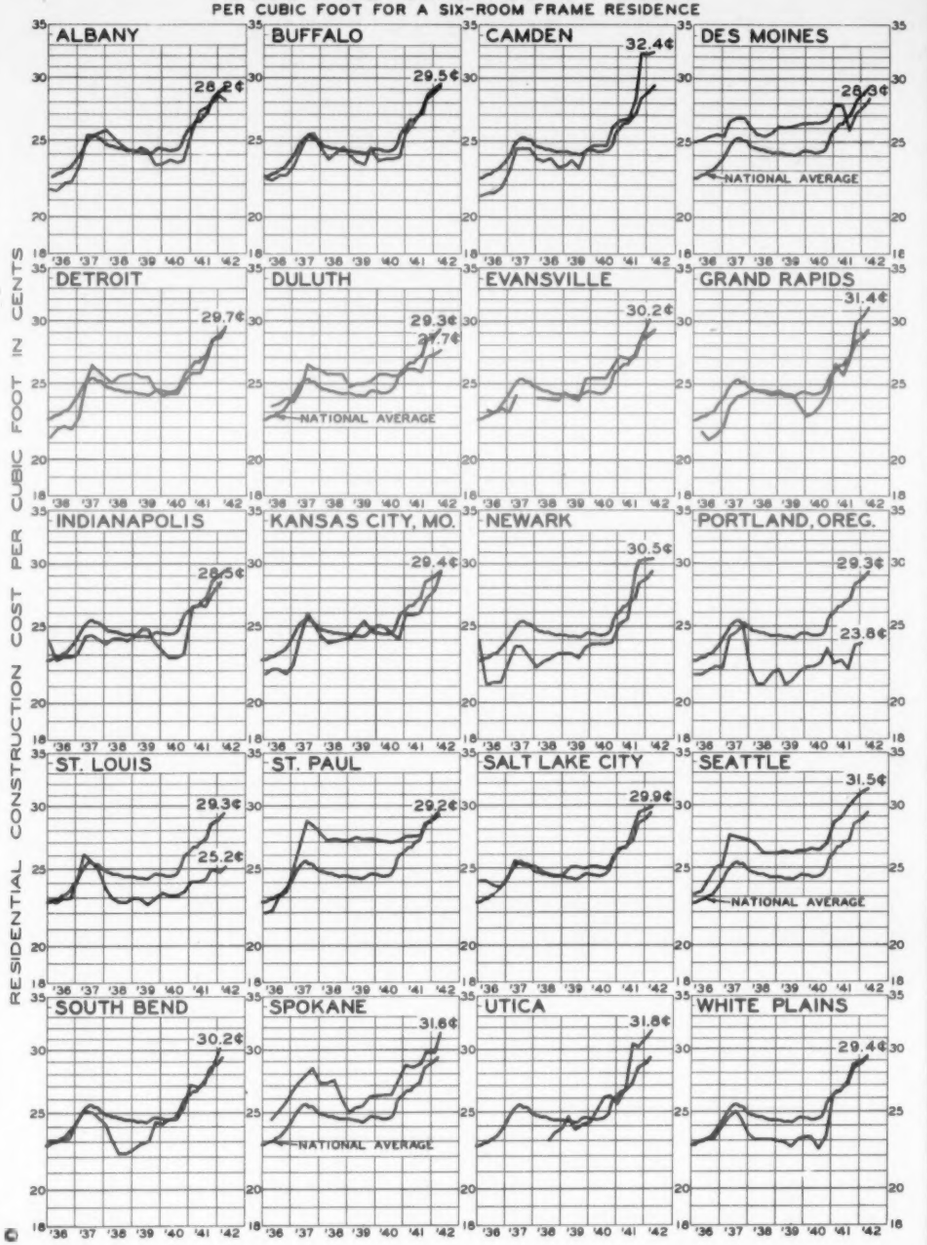
INDEX 1940 = 100



RESIDENTIAL CONSTRUCTION COSTS

PER CUBIC FOOT FOR A SIX-ROOM FRAME RESIDENCE

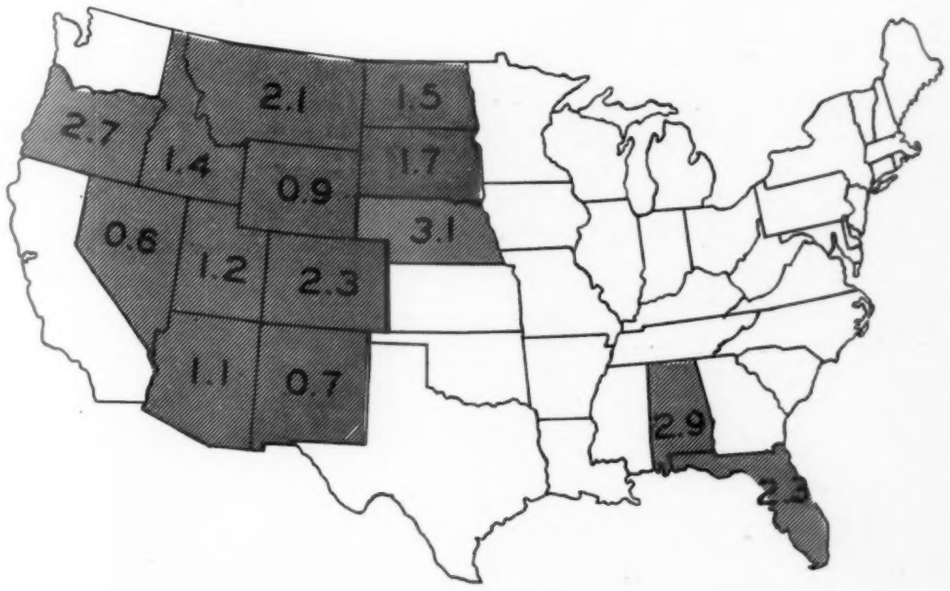
RESIDENTIAL CONSTRUCTION COST PER CUBIC FOOT IN CENTS



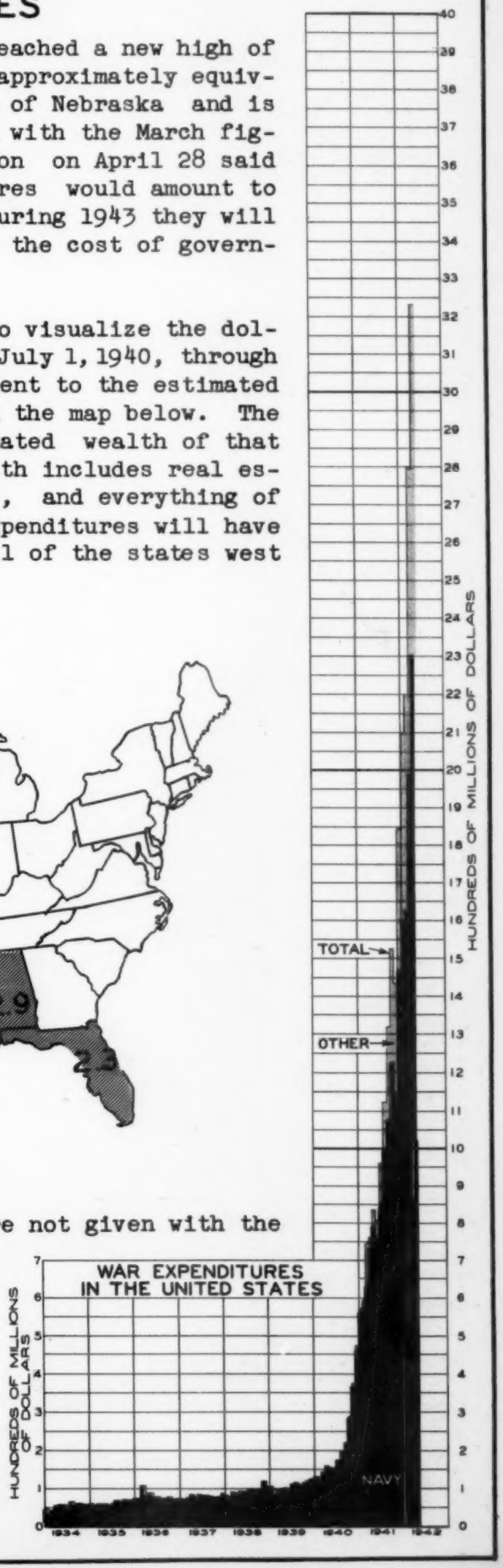
WAR EXPENDITURES

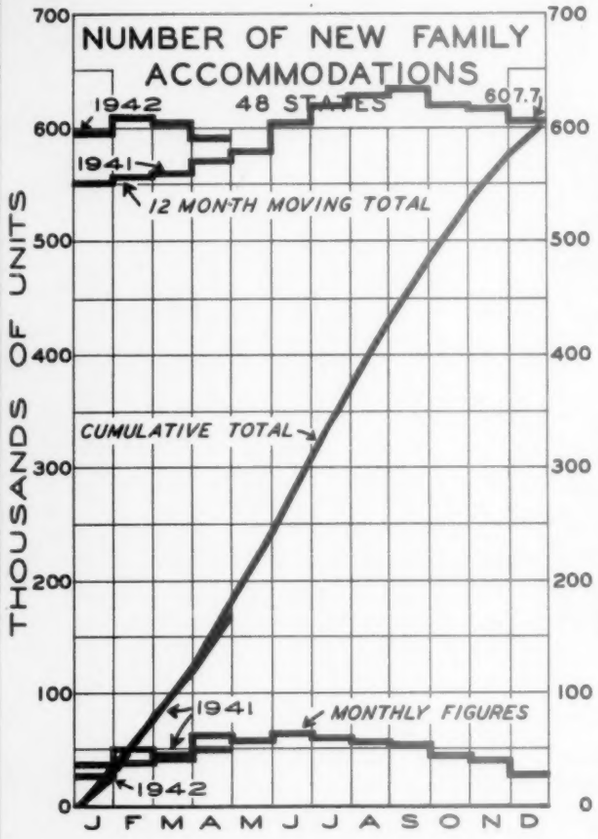
DURING April actual war expenditures reached a new high of $3,231 million for the month. This is approximately equivalent to the total wealth of the state of Nebraska and is an increase of sixteen percent in comparison with the March figure. The President in his talk to the nation on April 28 said that by the end of the year war expenditures would amount to $200 million a day or $6 billion a month. During 1943 they will be even higher. These figures do not include the cost of government, either federal and state or local.

On the map below, we have attempted to visualize the dollar amounts of actual defense expenditures, July 1, 1940, through April 1942. These expenditures are equivalent to the estimated total wealth of the fourteen states shown on the map below. The large figures on each state show the estimated wealth of that state in billions of dollars. Estimated wealth includes real estate, railroads and other public utilities, and everything of value in the state. By April 1943 our war expenditures will have been equivalent to the combined wealth of all of the states west of the Mississippi.



As stated before, these illustrations are not given with the intention of criticizing our foreign policy. We believe that it is imperative that our armed forces be prepared as rapidly and as completely as possible. By these illustrations, however, we are trying to emphasize the tremendous problem of trying to prevent a high degree of inflation. We believe that a reasonable degree of inflation is inevitable and that this inflation will eventually affect real estate value to a marked degree.



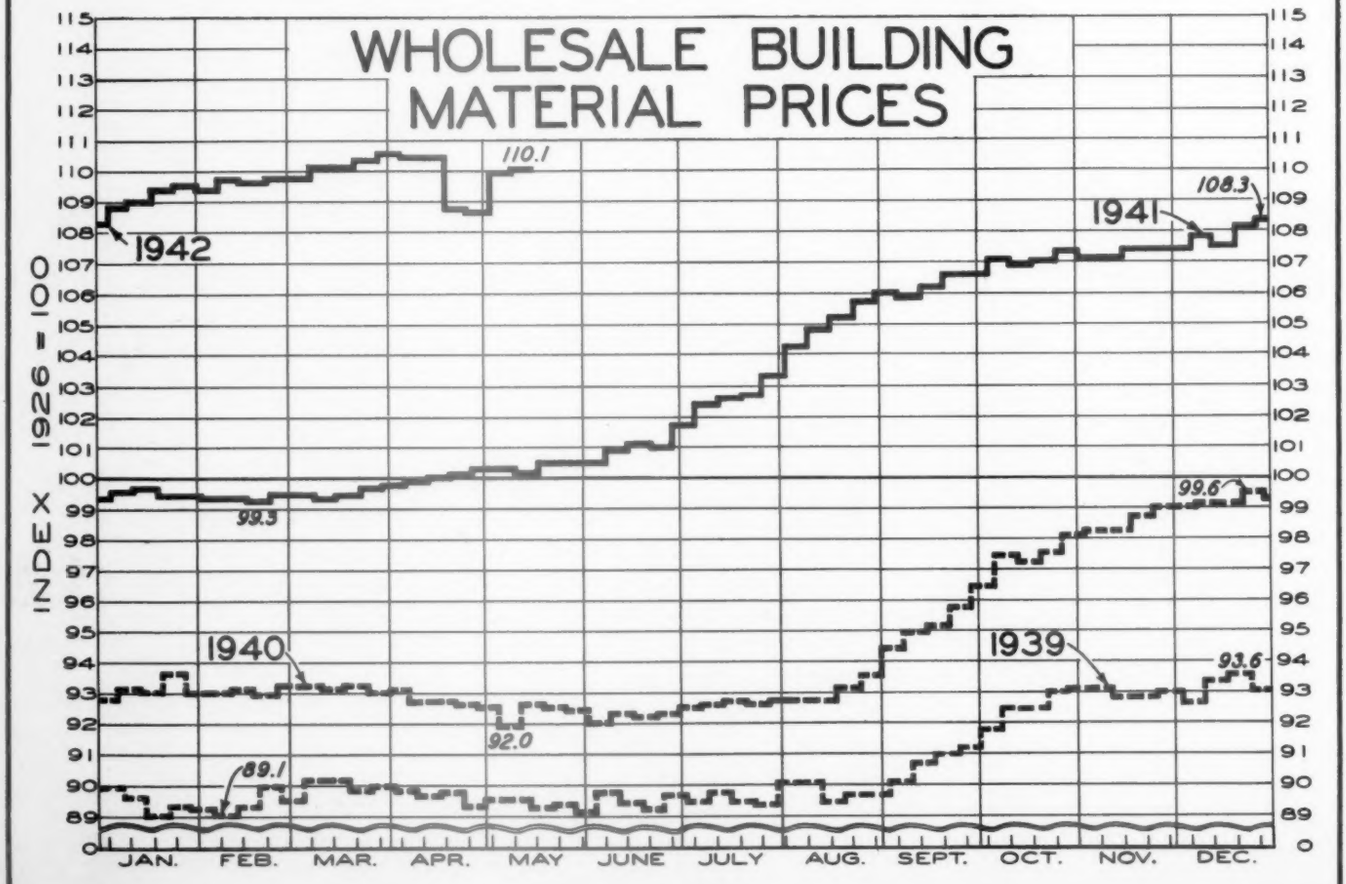


DWELLING UNITS CONSTRUCTED IN 48 STATES
(in thousands of units)

	Monthly			Cumulative			12 Month Moving Total		
	1940	1941	1942	1940	1941	1942	1940	1941	1942
January	24.3	37.7	28.3	24.3	37.7	28.3	459.2	553.4	598.3
February	34.8	39.3	52.1	59.1	77.0	80.4	464.8	557.9	611.3
March	43.4	47.8	43.4	102.5	124.8	123.8	468.8	562.3	606.9
April	52.1	64.1	51.5	154.6	188.9	175.3	484.3	574.3	594.3
May	51.2	59.3		205.8	248.2		485.9	582.4	
June	40.3	66.4		246.1	314.6		485.6	608.5	
July	49.8	61.8		295.9	376.4		497.3	620.5	
August	49.9	59.2		345.8	435.6		501.0	629.8	
September	52.2	57.3		398.0	492.9		517.5	634.9	
October	59.9	46.5		457.9	539.4		541.3	621.5	
November	41.4	40.1		499.3	579.5		540.2	620.2	
December	40.7	28.2		540.0	607.7		540.0	607.7	

THE number of new family accommodations built in all non-farm communities of the 48 states and the District of Columbia is shown in the table above and on the chart to the left. Cumulative totals and twelve month moving totals for 1942 (black) and 1941 (red) are given.

Wholesale building material prices as compiled by the Bureau of Labor Statistics are charted by weeks on the chart below. The drop in April due to price ceilings on a number of articles in this index has been largely offset by rises in other items--restoring a large part of the drop in the average of all wholesale building material prices.



MAY 27
1942

EXECUTIVE DIGEST

OF THE CURRENT REAL ESTATE ANALYST REPORTS

REAL ESTATE ANALYSTS, INC.

Real Estate Economists, Appraisers and Counselors

Roy Wenzlick
Editor

VOLUME XI

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REAL ESTATE ACTIVITY

WITHIN the last few weeks there has been a tremendous change in attitude toward the entire war effort. The confusion which characterized the early transition period from peace to war production has been replaced by the cooperative effort of all forces and the efficiency of industrial leaders who know how to produce results. Our production has reached a point that seemed impossible a year ago with the expectation of further increased production during the balance of 1942. This immense production effort with the expectation of increased shipping facilities indicates that the tide of war may be turned this year. This means that for the balance of the year every ounce of effort available and every pound of material that can be diverted to the actual manufacture of munitions will be used and that all other uses must yield ground without question. The entire Federal Works Agency construction program is undergoing at the present time a complete re-examination for the purpose of eliminating all but the most essential war production and of reducing the use of critical materials to an irreducible minimum. Even some war plants previously planned will be abandoned in favor of using the critical materials their construction would require as raw materials for actual production in plants already in operation.

NEW BUILDING MORTGAGES AND SALES

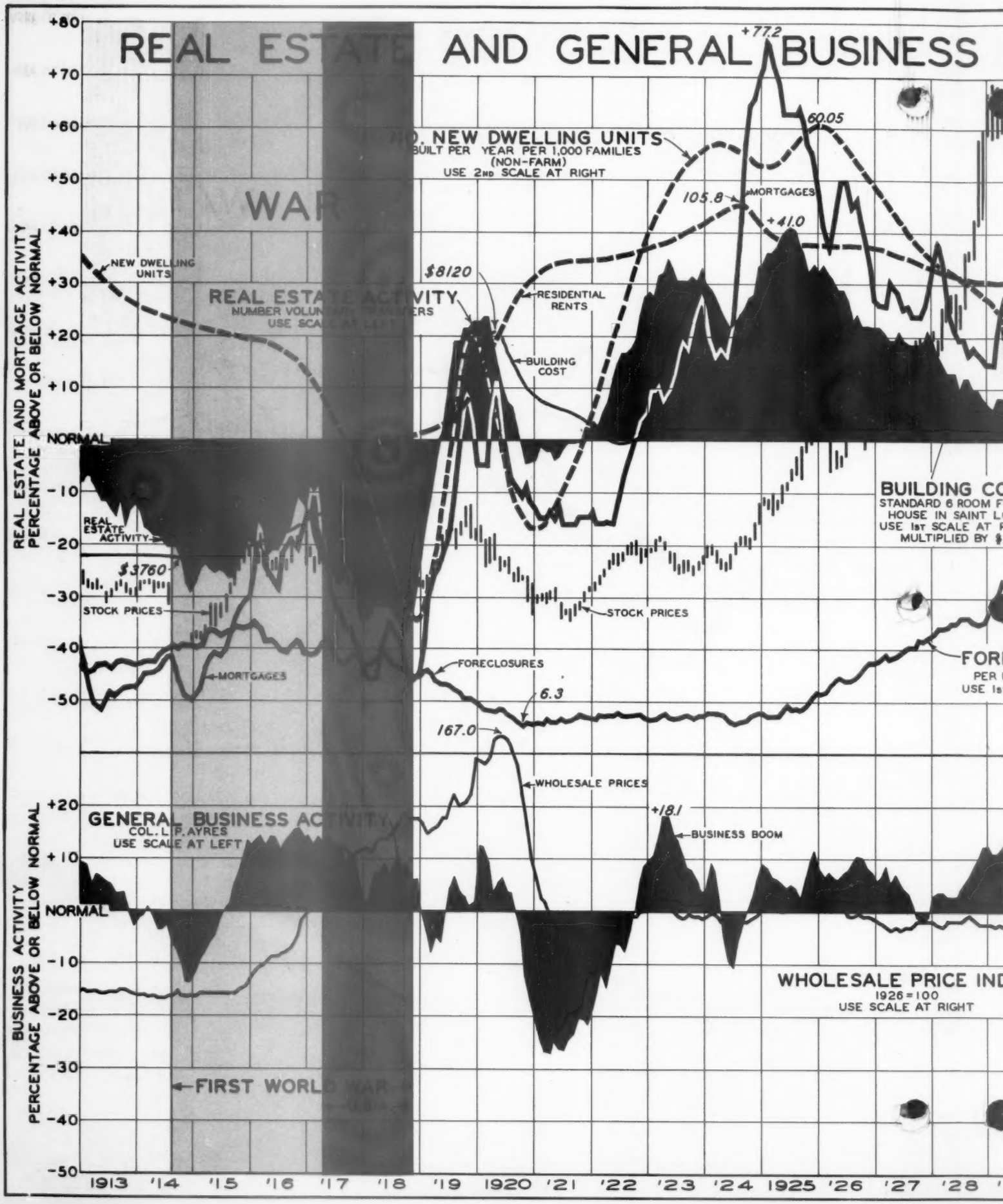
This will necessarily have a very definite effect on real estate, construction and mortgages during 1942. New residential building which in the 48 states had been running ahead of a year ago will start to fall off. It will be remembered, however, that the forecast of Real Estate Analysts, Inc., at the beginning of the year showed a drop of 25% in this volume of building. We believe this drop will occur in the year's totals. Our January forecast also called for a reduction in new mortgage financing. Sales of single-family residences, because of the shrinkage in construction, will stay at present levels in defense centers - or will increase, following the Canadian experience after the imposing of rent control.

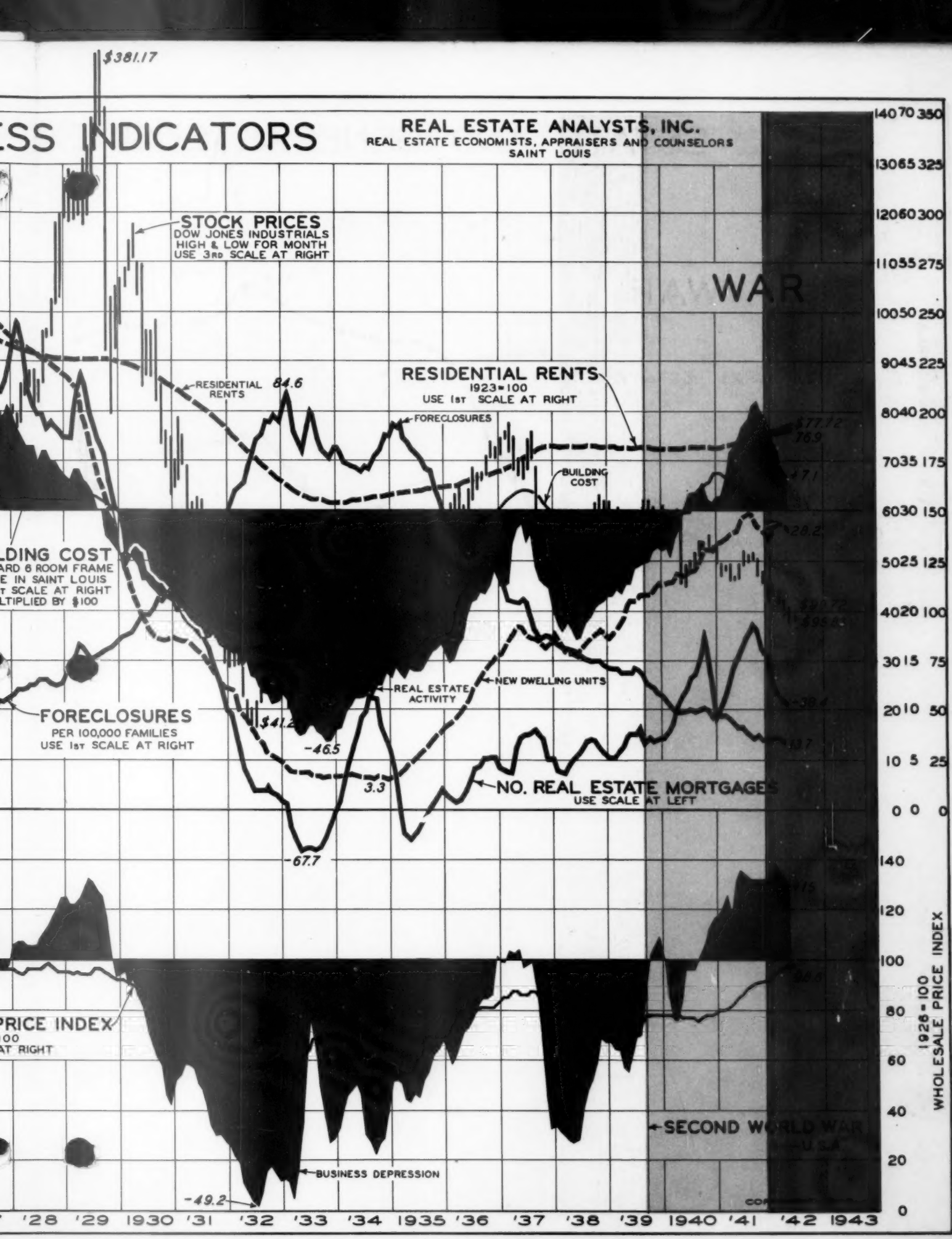
GENERAL BUSINESS

General business has experienced a continuous decline since the peak reached in January according to figures of the Federal Reserve Board. However, most of the losses in non-defense industries have been offset by the increases in armament production. We are advancing rapidly to a stringent shortage of employable persons and unless strict control is exercised over wages and employment, an inflationary spiral may result.

RESIDENTIAL RENTS

The rent situation is discussed in detail in the As I See It Bulletin. Our rent index from now on for the duration of the war cannot rise and will fall


REAL ESTATE AND GENERAL BUSINESS
WAR
NO. NEW DWELLING UNITS
BUILT PER YEAR PER 1,000 FAMILIES
(NON-FARM)
USE 2ND SCALE AT RIGHT
NEW DWELLING UNITS
REAL ESTATE ACTIVITY
NUMBER VOLUME
USE SCALE AT LEFT
$8120
RESIDENTIAL RENTS
BUILDING COST
+77.2
60.05
105.8
MORTGAGES
+41.0
BUILDING CO
STANDARD 6 ROOM F
HOUSE IN SAINT L
USE 1ST SCALE AT
MULTIPLIED BY
REAL ESTATE ACTIVITY
$3760
STOCK PRICES
MORTGAGES
STOCK PRICES
FORECLOSURES
6.3
FOR
PER
USE 1
167.0
WHOLESALE PRICES
+18.1
BUSINESS BOOM
GENERAL BUSINESS ACTIVITY
COL. L. P. AYRES
USE SCALE AT LEFT
WHOLESALE PRICE IND
1926=100
USE SCALE AT RIGHT
FIRST WORLD WAR
REAL ESTATE AND MORTGAGE ACTIVITY
PERCENTAGE ABOVE OR BELOW NORMAL
BUSINESS ACTIVITY
PERCENTAGE ABOVE OR BELOW NORMAL
+80
+70
+60
+50
+40
+30
+20
+10
NORMAL
-10
-20
-30
-40
-50
1913
'14
'15
'16
'17
'18
'19
1920
'21
'22
'23
'24
1925
'26
'27
'28


$381.17
ESS INDICATORS
REAL ESTATE ANALYSTS, INC.
REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS
SAINT LOUIS
STOCK PRICES
DOW JONES INDUSTRIALS
HIGH & LOW FOR MONTH
USE 3RD SCALE AT RIGHT
WAR
RESIDENTIAL RENTS
1923=100
USE 1ST SCALE AT RIGHT
RESIDENTIAL RENTS
84.6
FORECLOSURES
BUILDING COST
$77.72
76.9
471
LDING COST
ARD 6 ROOM FRAME
E IN SAINT LOUIS
T SCALE AT RIGHT
LTIPLIED BY $100
28.2
$95.8
FORECLOSURES
PER 100,000 FAMILIES
USE 1ST SCALE AT RIGHT
REAL ESTATE ACTIVITY
NEW DWELLING UNITS
$41.2
-46.5
3.3
NO. REAL ESTATE MORTGAGES
USE SCALE AT LEFT
-67.7
PRICE INDEX
00
AT RIGHT
SECOND WORLD WAR
U.S.A.
BUSINESS DEPRESSION
-49.2
1926-100
WHOLESALE PRICE INDEX
140 70 350
130 65 325
120 60 300
110 55 275
100 50 250
90 45 225
80 40 200
70 35 175
60 30 150
50 25 125
40 20 100
30 15 75
20 10 50
10 5 25
0 0 0
140
120
100
80
60
40
20
0
'28 '29 1930 '31 '32 '33 '34 1935 '36 '37 '38 '39 1940 '41 '42 1943